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NATIONAL FINANCE AND A LEVY ON CAPITAL

What the Labour Party Intends

BY
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NATIONAL FINANCE AND A LEVY ON CAPITAL.

WHATEVER may be our predilections and prejudices, the pivotal question of politics, not only in April when the Chancellor of the Exchequer produces the Budget, but throughout the coming years, must inevitably be that of National Finance. There are those to whom the most important issue in politics seems always to be that of our contemporary foreign relations. To others the supreme issue appears to be this or that projected constitutional change. Others, again, are most keen about Social Reform, general or particular. For the next few years, at any rate, these three sets of people will all find themselves limited, and controlled by, and whether they like it or not, to a large extent grouped and classified according to their assumptions and proposals in the sphere of National Finance. It is over the Budget, I venture to predict, that Parliaments for some time to come will find the fundamental party cleavage. The nation finds itself charged with a National Debt which may, as Lord Leverhulme has rightly warned us, notwithstanding the termination of the war, possibly amount in gross figures (including all that the Government will find necessary in Reconstruction) to something like ten thousand million pounds; and committed to a governmental expenditure, including the necessary services of the Local Authorities, of something like a thousand million pounds a year—sums never heretofore even contemplated by the wildest of theorists. The problem of how to deal with finance of this magnitude—involving, as it must, in the society of to-day, the sharpest issues between class and class—between those who, whether by hand or by brain, live by producing and those who live by merely owning—will presently dominate our politics.

The Labour Party is accordingly not wantonly or wickedly stirring up "class bitterness," or raising the "red spectre," when it discusses the present distribution of wealth, or propounds plans of taxation. It is merely facing an issue which cannot be avoided. But it is facing it publicly and democratically. It is asking the electors to consider the question for themselves, and themselves give a decision, so as not to leave it, year after year, when the Budget Day comes round, to a practically autocratic Cabinet and Chancellor of the Exchequer.

What is it, then, that the Labour Party desires and intends in this realm of National Finance?

No Currency Crazes.

Let it first be noted, for the comfort of those who are apprehensive of all sorts of unsound finance, that the Labour Party is exceptionally free from delusions in money matters. "Religion, love and currency," said Sydney Smith a hundred years ago, "fill all our lunatic asylums." They do not appear in the programme of the Labour Party. There is, at present, scarcely a trace in the British Labour Movement of "wild cat" ideas for solving all our financial difficulties by printing more and more paper money; or by some magic provision of universal bank credit; or by "Labour Notes" on the one hand or "Free Silver" on the other; or by any other Utopian manipulation of the currency. It does not enter into the heads of the adherents of the Labour Party that a simple way out of all our difficulties can be found by a "wiping of the slate." No one in the Labour Party suggests the Repudiation of the National Debt, or its redemption by an unlimited issue of international promissory notes guaranteed by all the Governments of the belligerents. I get projects of this kind sent to me from time to time, as doubtless other persons do; but they come, not from members of the Labour Party or from manual working wage earners, but usually from honest army officers, from simple-minded employers and business men of all sorts—some of them men of wealth—from perplexed country squires, and from lonely members of the Indian Civil Service. To whatever cause it may be attributed, it is a remarkable, and, as I think, a comforting fact, that on all this range of questions the British Labour Movement is, as Lombard Street would say, "as sound as a bell." We shall probably have in this country, as in the United States, a recrudescence of the currency crazes of past generations; but I see no sign that the British Labour movement will be infected by them.*

We must increase Production.

The British Labour Movement, which is, unlike the other political parties, made up almost exclusively of producers, is, indeed, quite keenly alive to the fact that the essential problem is that of production—*production, that is to say, not of profits or fortunes, but of the commodities and services by which the community lives.* We can replace the material wealth destroyed in the war only by new production. And we must therefore raise our national production—production, that is, of useful commodities and services—to its highest possible amount consistent with a humane and civilised life. It is a profound mistake to suppose that the Labour Party is indifferent to production. None of the revelations of the war is more keenly appreciated in the Labour Party than the lamentable failure that we now see that we have heretofore made, as a nation, in this

* Those who seek a commonsense and practical exposition of currency and its problems may consult one of the latest books, *Money, its connection with rising and falling prices*, by Edwin Cannan, Professor of Political Economy in the University of London (P. S. King & Son, 2/6 net); or *Gold, Prices and Wages*, by J. A. Hobson (Methuen, 2/6).

matter. Whether in agriculture or in manufactures, in industry or in commerce, in science or in social organisation, it is plain that we have, as a community, not produced anything like as much—I do not say of profits and wages, but of useful commodities and services—as we could have done, without any lengthening of the working day, or increase of strain, if the nation had really set itself to do its utmost. But I may make two observations which are usually not in the minds of those who talk about this slackness in production.

Private Capitalism.

First, it is against our whole system, not against individuals, that the gravest indictment must be brought. It is our agricultural system, the system under which we have done our importing and exporting, the system prevailing in our factories and mines, our system of wholesale and retail distribution, the system of our transport, our banking, our remittances—in short, our whole national organisation from end to end, that we now see to be, from the standpoint of maximum production of commodities and services, horribly imperfect. But this organisation in all its phases is the outcome of the private ownership of capital, guided by the individual striving for personal riches, and allowed a free run, under the impression that “competition” and the “law of supply and demand” would make the best of all possible worlds! It is this that has become, in all classes, so generally discredited. There is coming to be a very general feeling, not by any means peculiar to the Labour Party, that, *speaking from the standpoint of maximum production*, this whole system has been proved to be a failure.

The Prevalence of “Ca’ Canny.”

My second observation is that one of the evil incidents of the system, intensifying its inherent disadvantages, has been the almost universal prevalence of what is called “Ca’ Canny.” Looking back on the years before the war, it really seems as if hardly anybody who was not driven by the hardest of taskmasters was habitually pulling his full stroke, or putting his whole energy into his production—again, let me say, production of useful commodities and services, as distinguished from the very different question of the amount of profits or wages that he could extract. We have heard a lot about the “Ca’ Canny” of the manual wage-earner. It seems to me that the habit of “Ca’ Canny” was even more characteristic and even more habitual among the brain-workers, whether salaried or profiteering, than among the manual workers. The Civil Service was certainly not doing its utmost—was not even officially allowed or encouraged to do its utmost. I do not mean to say that the Civil Servants, “like the fountains in Trafalgar Square,” played only from ten to four. I mean that, from top to bottom, they were never even asked to put their brains into the task of *how to increase the efficiency of administration*. Ministers and Members of Parliament, so far as their official duties were concerned, lounged through life, taking long holidays, working only three or four days a week at

their ostensible tasks, spending a vast amount of their energy, not on working at their administrative and legislative problems, but on political camouflage and all that side of political life that other people call social entertaining. They were, for the most part, not bent on making the State Departments as serviceable as possible to the public. And business men were just as guilty. Employers and managers, partners and directors were very seldom putting in a full week's work. Most of them, especially the more prosperous, were habitually taking long "week-ends." They spent, in the course of each year, endless time in golf, in shooting or in their motor cars. It seldom entered their heads to consider whether they were getting out of their intellect and their capacity for the captainship of industry—not profits, but *the maximum output of useful commodities and services*. And, turning to other spheres, I don't see how the lawyers justify, from this standpoint, their absurdly prolonged annual Vacation; or for that matter, how the Universities can defend the laying idle of the educational plant that has cost many millions sterling for rather more than half the weeks in the year. And, to turn to another large class, consider the incredible aggregate of time spent, practically in social intercourse, by the entire class of tenant farmers in their largely unnecessary attendance on market day. The whole of British society, from top to bottom, was addicted to the habit, not of doing with all its might that which it had to do, but of doing only as much work, and putting only as much energy into its work, as it deliberately, for its own interest and pleasure, chose to do. And this habit of "Ca' Canny" was naturally far more restrictive of national production, and far more fatally effective in keeping down the aggregate output of commodities and services, when practised by the brain-workers, than when it was the manual workers who were in fault. It is not so much a question of the nominal length of the working day, as of intellectual integrity and the intensity of effort that is put into the work. I say nothing of the large class of the idle rich, who thought themselves (and, extraordinary as it may seem, still think themselves) exempted from the obligation of wealth production. This was (and is) merely so much dead loss, and it must necessarily raise the question to what extent we can afford to permit the inheritance of wealth by private persons. But the slackness of the organiser, the manager, the director, the administrator, the professional thinker, and the legislator, was even worse than the idleness of the idle rich, because it had a paralysing effect on the whole social machine. These things must cease. The Labour Party is keen on such a national reorganisation and such a reform, personal as well as social, as shall bring definitely to an end what John Stuart Mill called "the great social evil of . . . a non-labouring class";* such as shall stimulate to greater efficiency—measured by output of commodities and services—the producers of all kinds; and such as shall give to our industry and government the organisation securing to the producers of all grades the highest development of body and mind. The Labour Party, far from believing that all

* *Principles of Political Economy*, p. 455 of People's Edition.

may be made right by any mere redivision of that which exists, recognises—apparently, if we may judge from the timidity of their Reconstruction proposals, more vividly than either the Liberal or the Unionist members, or than that of the Coalition Party in which they have nearly all merged themselves—that it is essentially upon such an increase in the nation's aggregate output of *commodities and services* that the nation's financial policy must depend.

The Cost of the War.

After this preamble, let us come to the figures. We cannot yet estimate how much our country will have spent on the War because the bills for the aftermath are not yet presented, but it is already clear that the War will have cost the nation, first to last, at least seven thousand million pounds (£7,000,000,000), which is equal to nearly half the private fortunes, before the War, of all the people in this country who owned land or houses or stocks. But it is quite incorrect to say that we have lost half our investments. The investors, taken as a whole, have lost nothing—very much the contrary, indeed. Their lands and houses and stocks and shares still belong to them, and (although these investments may, by the change in the price level, none of them sell for as much gold as they did in 1914) they can still be exchanged for each other in approximately the same ratio as before; and, what is more important, they yield to their owners as much rent or interest or dividend in money as they did before. In many cases, indeed, they are yielding more income. And they have greatly increased in volume or amount—the best estimate puts it at £5,000,000,000. This is the estimated increase in private fortunes since 1914.* It is, therefore, a mistake to suppose that the War will have lessened the sums annually drawn by the owners of land and capital (irrespective of any contemporary service rendered by them) from what is annually produced.

What will have happened, on the contrary, will be that the other great mortgage on our labours, known as the National Debt, will have increased more than tenfold. Instead of paying for the War as we went along, to the utmost possible extent, by taking what was needed in taxes, the Governments preferred, to an extent that the economists have criticised as unnecessary, to borrow the money from those who had it to lend, at high rates of interest, which the nation has now year after year to provide, and subject to an obligation of repayment of the capital, which the nation has eventually to honour. Thus, so far as we have financed the War out of loans, we have put off the evil day; but we shall have to pay for

* See the careful estimate of Dr. J. C. Stamp, of the Inland Revenue (author of *British Incomes and Property*), in *Economic Journal*, June, 1918. It may be pointed out that although the selling value of each old security has, since 1914, fallen by about twenty-five per cent. on an average, owing to the rise in the rate of interest, and in some cases has been further depreciated, the aggregate value of the whole volume of securities now quoted on the Stock Exchange has (owing to the creation of so vast an amount of new securities by the British and other Governments, and the exceptional appreciation of others) increased by thousands of millions sterling.

the War twice over, first in interest, and then in repayment. After the War, and after all the necessary expenses of the long period of demobilisation have been paid, together with the measures of Reconstruction that are being found to be imperative, the gross amount of the National Debt will probably be £10,000,000,000; and even allowing for recoupments, and for repayments from our Dominions and our Allies, it is difficult to estimate the annual net charge for interest and the necessary sinking fund at less than £400,000,000. This huge sum will have to be paid by the Government in our name to the investing classes, and it certainly constitutes an addition to their incomes, which goes far to explain their aggregate increase in capital wealth. And it is not evenly divided. In spite of Supertax and Excess Profits Duty, the rich, taken as a whole, have become richer, even if the poor have not become poorer. Those watchful silent officials at Somerset House, through whose hands now pass the detailed income accounts of the 30,000 families enjoying incomes exceeding £2,500 a year, know that, whilst the individuals to some extent shift, the class, as a whole, becomes steadily both more numerous and, in the aggregate, more wealthy. The official records show, without doubt, that this small class of 150,000 persons (including children), maintained on the 30,000 super-taxed incomes—drawing in 1918 probably £300,000,000 sterling, or about one-tenth of all our national production—has been, on the whole, greatly enriched by the War.

It may be said that the termination of the War, and the possible repayment of part of our expenditure by our Allies and our Dominions, a possible (but, in my own opinion, not very probable) recovery from the German Government of something by way of reparation or indemnity, and at any rate the sale of our own surplus stores (said to be worth as much as £1,000,000,000) will prevent our National Debt and the annual debt charge from reaching anything like so great a sum as Lord Leverhulme talked about. On the other hand, we have to add the very considerable expenditure in the way of capital outlay that the Government will have to incur under the head of Reconstruction. We must not leave out of account the fact that if the Government succeeds in doing what it has repeatedly promised to do, namely, put right the shortage of houses, and therefore within the first three or four years of Peace manages to build a million healthy and commodious cottages in the United Kingdom; if we should think fit, as the basis of national reorganisation, and as the Government has already in principle decided, to appropriate all the shareholders and stockholders of our railway and canal companies; * if, as the Labour Party urges, we should do the same with our coal and iron mines; † if, in order to get the cheapest possible power, light, and heat, the Government sticks to its decision to nationalise the generation of electricity; if we bring equally

* See *A Public Service of Railway and Canal Transport* (Fabian Research Department, price 1s.), reprinted from *How to Pay for the War*.

† See *The Nationalisation of the Coal Supply* (Fabian Research Department, price 1s.), reprinted from *How to Pay for the War*.

into public management and control the banks and the life assurance companies,* in each case paying in compensation the full Stock Exchange value; even if we thought it necessary, for the sake of reforming our farming, to resume possession of all the nation's agricultural land, buying out the British rural landlords as the Irish are being bought out, *all this would make a nominal addition to the National Debt of less than £3,000,000,000 sterling*, or not nearly half the amount piled up by the War. Any such addition to the gross debt would, of course, be merely nominal, as these services would at least pay their way as they now do. The very extensive, but somewhat indefinite, assets left in our hands, both in accumulated stocks and stores of all sorts, and in debts due to us from our Dominions and our Allies, must clearly be devoted to the expenses of demobilisation. Lord Leverhulme's figure of £10,000,000,000 for the gross National Debt is therefore one that we can take as a standard.

In addition to the interest and sinking fund on the National Debt, we have to provide for the ordinary expenses of Government. In the Budget for 1914-15 the various departments and services of the National Government (including the Grants-in-Aid) were to cost, in round figures, nearly 175 million pounds. We know that this will be increased after the War, owing partly to the increased cost of everything, partly to the heavy burden of War pensions, partly to the greater provision that must necessarily be made for health, education, housing, insurance, etc., and partly to the need for maintaining, at least for some time to come, an army and navy larger than in 1914. I venture to say that, on these heads alone, four hundred millions a year will not pay the normal bills of the Chancellor of the Exchequer. Thus, in all probability the gross total of the expenditure of the National Government, including the debt charge of 400 millions, will be 800 million pounds a year, together with at least 200 millions spent by the Local Authorities of the United Kingdom—making, in all, 1,000 millions, or four times as much as in 1913-14. Can the nation endure such a load (in addition to the levies of rent, interest and profits by the landlords and capitalists) without the poor being crushed into destitution? This is the problem before us—not put by the Labour Party or wantonly raised by the Socialists, but imposed on all parties by the facts of the case.

How to get the Revenue.

Now the Labour Party approaches this problem with no other desire than that of discovering the solution most calculated to promote the well-being and prosperity of the community as a whole. As a party it accepts, as its guide, the highest and most authoritative science and wisdom on the subject wherever it can be found. It has no panacea of its own discovery. Why it is specially concerned—more concerned, apparently, judging from the speeches, than the Coalition Party—is that it remembers that, after every previous war,

* See *A State Insurance Department* (Fabian Research Department, price 1s.), reprinted from *How to Pay for the War*.

notably in 1815, as is now universally admitted and deplored, the private interests of the landlord and capitalist classes have been so powerful as to cause the adoption of financial measures which have neither been warranted by economic science, nor yet determined by any consideration of the well-being of the community as a whole. There are, so the economists tell the Labour Party, three considerations to be borne in mind in deciding how the unprecedented taxation shall be levied, which are of paramount importance. The first is that there is no calamity to a nation so great, and of such lasting injury to the general well-being, as any general lowering of the Standard of Life of the vast majority of folk who at present live on weekly wages. The second is that no burden is so onerous to a nation as anything that lessens its annual productivity, *not indeed of profits and wages, but of commodities and services*; and that it is therefore vital to do nothing to diminish either the powers of production or (without necessarily depending on any particular system or motive of the past) the springs of action that set the powers to work. And the third consideration is that the way to make the national burden press least heavily upon the community is to cause it to bear upon us, not equally, at so much per head, not even proportionately at so much per pound sterling of income or fortune, but, as far as may be reasonably practicable, without flying in the face of other indispensable considerations, according to the principle of *equality of sacrifice*. I will add a fourth consideration of no less importance. It is vital to our character that nothing should be done that would outrage, not justice, as to which there is no abstract definition of validity, but the sense of justice of the community. This, I hold, is as essential as the other three. I venture to believe that, whatever else he might urge, no instructed person will deny the force or the scientific validity of these four considerations. It is upon these considerations that the financial policy of the Labour Party will be based.

What do these considerations point to? I do not pretend to formulate the Budget for what I predict will be a series of different Chancellors of the Exchequer of the next few years. But we see at once that the old controversies about Free Trade and Protection have practically no relevance to this financial problem. Not even the most infatuated supporter of a protective tariff has ever imagined that it would yield more than ten or twenty or forty millions a year to the Exchequer. What is this when we need to raise a thousand millions? The same considerations dispose of those amiable people who bother us with projects for taxes on cats, or on titles, or on the pretentious names given to suburban villas, or on all the host of other new taxes that are suggested each year to the Chancellor of the Exchequer. These imposts, all put together, would not yield enough to meet the deficit of a single week in the year. There is no way out but deliberately to submit to heavy taxation *upon persons*—that is, upon ourselves, collectively—which is exactly what none of us likes! There is no getting away from the fact that all taxes fall upon people's wealth—that is to say, they leave people with less to spend as they choose than if there had been no tax. We must not be deluded, therefore, by any idea of taxing "land," or "luxuries," "dia-

monds," or "imports," or "foreign-made articles." It is never a thing that we tax, but always a person, whom the Government thereby makes poorer in money than he would otherwise have been.

What the Government can earn.

There is, however, one proposal on which the Labour Party will insist, in order to enable this taxation to be as small and as little onerous as possible, and that is, on the Government making the best of the national estate. We want a rich and prosperous Exchequer, not a starved and bankrupt one. We want the Government, whilst paying to every person employed proper wages, to push the productiveness and to develop the serviceableness of every part of the public domain, so that it may yield the utmost possible profit to the community as a whole, even if this means that fewer opportunities for private profit are left to capitalist speculators. To take one instance among many, we want the Post Office to develop its profitable business in all directions, so as to employ for the public advantage its magnificent national organisation, instead of timidly stopping short, at this point or that, because the bankers, or the railway companies, or the carriers, or the remittance houses, or the insurance companies, prefer not to be competed with.* This is virtually to plunder the national Exchequer for the benefit of private profitmakers. We want the new national electricity plant—the score of super-power stations that are to give us electric heat, light and power for next to nothing—to go ahead for the public benefit, without regard to the feelings of the Standard Oil Company or of the gas shareholders or of the coalowners. What the Labour Party asks for is the abandonment of the tacit convention of the nineteenth century capitalists that all the opportunities for profitmaking should be left as their private monopoly. We must have a free hand for the Chancellor of the Exchequer, consistently with the proper treatment of the persons employed and of the public of consumers, to gain as large a revenue as he can from the public enterprises, even if this means that there are fewer opportunities for the piling up of private fortunes.

This "non-tax" revenue of the State after the war will necessarily be of vast dimensions. What with a Post Office doubled or trebled in the range and extent of its useful services; with a united public service of railway, canal, road and also harbour transport—the harbour is only a peculiarly specialised bit of a line of communication, and should be dealt with as such—the whole organised with the single aim of national efficiency; what with the national service of electricity generation, and of the coal supply, which plainly cannot be allowed to be monopolised against its largest consumers; what with the extensive public enterprise in life assurance (for the sake of giving security to the policy-holders), and banking (to avert the consequences of the rapidly approaching monopoly) it is plain the Chancellor of the Exchequer should be able to look, for the interest of a quarter or a third of the National Debt of £10,000,000,000—being at least that portion represented by the compensation paid to bring

* See *The Development of the Post Office* (Fabian Research Department, price 1s.; reprinted from *How to Pay for the War*.)

these services under public control—to the non-tax receipts that they will yield to him as the successor to the former shareholders. All the rest of his eight hundred millions a year the Chancellor of the Exchequer must get by taxes. We want the Local Authorities in the same way to develop to the utmost their own magnificent public services of gas and waterworks, of tramways and omnibuses, of ferries and docks, of markets and milk depots, of houses for the people and places for their recreation and entertainment.* They ought to yield them a considerable revenue. All the rest of their 200 millions (apart from Grants-in-Aid) they must get in rates. It is clear that we shall all have to pay a great deal more than we shall like. How can we make the burden most endurable, bearing in mind the four fundamental considerations that I have mentioned?

Who gets the National Income?

Let us first recall how our aggregate national product is shared. The national income—that is to say, the aggregate annual output of commodities and services—may perhaps be roughly estimated, at present prices, at three thousand million pounds. This, however, is at present very unequally distributed among the eleven million families of the United Kingdom. We have chosen so to arrange our society (largely by the purely artificial institution of private ownership of the means of production, and the equally artificial device of abandoning the management and control of our services to the guidance of private profit-making) that a small class of some 30,000 persons (including, with their families, only about one two-hundred-and-fiftieth part of the community)—the payers of the Supertax—enjoy incomes of between £2,500 and a million pounds a year per family, amounting in the aggregate to about three hundred millions (£300,000,000). A second great class, comprising nearly three million persons (including, with their families, between one-fourth and one-fifth of the community), enjoy incomes of between £130 and £2,500 per family per annum, averaging perhaps £500 per family a year, and amounting, in the aggregate, possibly to as much as fifteen hundred millions (£1,500,000,000). The great mass of the people, comprising more than two-thirds of the whole community, find themselves getting from a few shillings to a few pounds per week, the aggregate income from all sources of the humbler thirty-two millions of the population probably not reaching (including all income from investments, pensions, etc.) twelve hundred and fifty millions (£1,250,000,000); allowing thus, *on an average*, even at the new high level of earnings and prices, scarcely more than 15s. per week *per head of population*, men, women, and children, for all the needs of life, happiness, and citizenship. Of course, something like half the families have less than 15s. per head per week, and many much less. There are still many thousands, notwithstanding the rise of prices, “round about a pound a week.”

Now it is the very emphatic deliverance of Political Economy that it is of vital importance to the permanent welfare of the com-

* See *What about the Rates?* or, *Municipal Finance and Municipal Autonomy* (Fabian Tract No. 172, price 1d.).

munity not to diminish the standard of life of the great mass of wage-earners. To take by taxation from scanty livelihoods averaging only 15s. per week per head, with the present excessive cost of living, must be, as far as possible, avoided. But, depend upon it, this will be attempted. Under every specious pretext—the desirability of making every elector feel that he is bearing his share, the equity of penalising working class luxuries, the convenience of concealing the levy by indirect taxation, the pretence that the foreigner can be made to pay Customs duties, the delusion that a Protective Tariff will make wages higher and employment steady—a very strenuous effort will be made to throw a large part of the burden on the poor. This will be for years to come the crucial issue of our home politics. There will be proposals for continuing the present excessive taxation on tea, coffee, sugar, cocoa, matches, and lamp oil instead of promptly abolishing it. There will be attempts to maintain the present high prices of commodities, so that the Government can in one or other way get revenue from them. There will be proposals for levying new taxes on all sorts of imports on the plea of protecting our trade against the foreigner—protection which, if it is necessary in the national interest, ought to be secured at the expense of those who can afford to bear taxation, not (in higher prices) at the cost of the poor.

The Wage-earner's Share of Taxation.

But shall the great mass of the manual working wage-earners be wholly exempt from taxation? It might be answered that they are anyhow by no means exempt; that they contribute enormously, in proportion to their means, by the extraordinary abstraction from the produce of the vast tribute of rent and interest in which they, as wage-earners, have no share; and that, in any systematic reorganisation of society, on a basis of equitable distribution of the product of our combined effort, there would be, instead of a tax-paper, a bonus or dividend to come to the wage-earner over and above his wages, as there occasionally is to this day to the burgher of a German commune. But we need not take up that position. The Labour Party does not assert, and has never asserted, that the wage-earning class should be wholly exempted from taxation. What we demand in the way of exemption (and that not at all exclusively for the sake of the exempted, but, according to the accepted orthodox teaching of the economists, in the interest of the community as a whole) is that there should be no encroachment by taxation on the necessary subsistence of the poorest family—no diminution, by any decision of the Government, of what is required to allow to the whole of the wage-earners their full development of body, mind, and character. This, so the Labour Party suggests, can be secured by confining any deliberate taxation of all the people below the Income Tax level to imposts on what are definitely luxuries, not necessary for this development; and specially to those luxuries of which there is good reason for preventing the consumption in excess, and even also for restricting the consumption in moderation. Thus the Labour Party makes no protest against the Government obtaining

the largest possible revenue from alcoholic drink and tobacco. It would not, as a party, if the State needed the revenue, resent the taxation of admission to race meetings, or any practicable tax on betting and gambling; and it would be disposed to consider favourably any plan by which any working class luxuries, which yield little or nothing in subsistence or refinement, could be made the vehicle of any necessary taxation. What we say is suicidal is any inroad on the Standard of Subsistence, and any hindrance to an advance of the average working class family in security, culture, and fulness of life. As a matter of fact, any such economically injurious taxation is unnecessary to make up the quota of taxation of the wage-earning class to any sum that could be justified by an honest apportionment, according to the principle of equality of sacrifice. It is, as experience indicates, quite easy to get, merely out of taxation of luxuries enjoyed largely by the wage-earning class, more than a hundred million pounds a year. This is one-twelfth of their aggregate income. If the whole revenue had to be raised by direct taxation, and if there were any genuine graduation on the principle of equality of sacrifice, no one would propose to get more than some such quota—equal, as it would be, to an Income Tax of something like one and eightpence in the pound—from the class below the Income Tax level. The Labour Party is accordingly fortified in its demand that any deliberate taxation of the class below the Income Tax level, carried out by the vehicle of Indirect Taxes, ought to be absolutely confined to luxuries not entering into the essential Standard of Life and unnecessary for the advance of the wage-earning family in security, culture, and fulness of life.

Apart from the development of revenue from the national estate and the taxation of the more questionable of the luxuries of the whole people, including the wage-earners, there are certain special sources of wealth that should be looked after by the Chancellor of the Exchequer as the mere assertion of a national claim. That the Direct Taxation of Land Values should be applied, at least to the extent of effectually diverting to the Exchequer the unearned increment of urban land values; is an old proposal, not of the Labour Party in particular, but of many of the political economists for three-quarters of a century. Even Mr. Gladstone, reactionary financier as he was, got so far as to talk about it. We have, at present, only such tentative and trivial applications of the principle as the Increment Duty on Land Values and the Mineral Royalties Duty. Mr. Bonar Law has applied the same principle to capital gains on the sale of ships, and now to profits on the sale of businesses and stocks of controlled establishments. Other countries have gone much further. There seems no reason why every realised accession of capital value should not be shared with the Government, which was long since declared to be—though our Chancellors of the Exchequer seem habitually to forget it—the sleeping partner in every undertaking, and the only righteous heir to every increment due to the progress of the nation in population and wealth.

With all these contributions, we are nevertheless left with an

enormous deficit to be made good. The Labour Party suggests that this must necessarily be met by Direct Taxation; and that what we have to do is unflinchingly to apply the principle of equality of sacrifice, not, indeed, as between individual cases, which would make taxation arbitrary, and therefore inevitably outraging our sense of justice, but, as far as practicable, between different grades and kinds of "ability to pay."

Now, on this matter there is always a great scare, which the wealthy classes and the financiers for their own sakes foster, among the great army of the thrifty and industrious folk of narrow means. Just as the lord of broad acres is entrenched behind the peasant proprietor, and the millionaire owner of urban land values behind the man who is buying his house through a building society, so the man of ten or fifty thousand a year cowers behind the bulwark of the poor widow, the "lean annuitant," and the people who have laboriously accumulated a few hundreds in Government stock by way of provision for their old age. Speaking of this class as a whole, whether people earning by hand or by brain incomes between £130 and £1,000 a year, or humble annuitants, or men and women painfully purchasing their houses by instalments, or depositors in the Post Office Savings Bank, or holders of little lots of house property, it is not too much to say that, in this matter, their financial interests are really the same as those who are merely wage-earners. At present both are suffering in common. The political helplessness of the middle class has long made them the special prey of the Chancellor of the Exchequer. In all sorts of ways, some of which they feel but do not identify, they are at present taxed quite out of proportion with any principle of equality of sacrifice. Of course, they will again be mobilised against the Labour Party. They will be deliberately scared by false accusations that the Labour Party is going to repudiate the National Debt, confiscate all houses and land, forfeit everybody's shares in joint stock companies, seize all the savings bank deposits, destroy the Co-operative Societies, and, finally, as the crowning horror, conscript all the wealth of the country! I don't suggest that the Liberal or the Unionist candidates, who are all honourable men, will themselves say these things. But these things will be said, in the interests of these candidates, and for the protection of the rich—indeed, they are already being said.

No Confiscation.

Now, I wish to declare, very emphatically, that these allegations are untrue. The Labour Party has no project of taxation that will make things worse for the large class who are painfully saving to secure themselves a little independence. It has no sort of hostility to these small fortunes. On the contrary, what the Labour Party is out for is that every man and woman should have, for his or her own, not only the assured possession of a home, with all its paraphernalia, but also an equally secure provision for old age, in no stinted measure, and freedom to hand on this little family hoard, whether represented by house and garden, furniture and paraphernalia, insurance policy or invested savings, to family or other legatees.

To say that Socialism would destroy these little fortunes is simply untrue. It would make them more secure. The social danger of inheritance, which it will be necessary to avert by steeply graduated Death Duties, begins very much higher up in the financial scale than anything we are here contemplating.

Thus, what the Labour Party proposes in Direct Taxation, far from piling new burdens on this large class of thrifty folk, would actually redress some of the fiscal grievances from which they now suffer. How unfairly burdensome, for instance, are the heavy stamp duties levied on the man who buys a house or a little plot of land. How unwise it is to make the widow and orphans, who are left on the death of the breadwinner with no more than a thousand pounds or so, pay any Death Duties at all. With regard to the Income Tax, too, the Labour Party asks for nothing less than a revolution in the method of assessment, so that the burden is adjusted to the number of persons to be maintained. Moreover, the Labour Party will insist that every woman, married or unmarried, is treated for Income Tax as an independent human being, exactly as if she were a man. The Labour Party accepts the principle of differentiating in rate between earned and unearned income, and would carry it further.*

What the Labour Party expects, then, is a much greater use than at present of the Income Tax and Supertax with their existing unfairnesses remedied and a more equitable graduation introduced. If these taxes were assessed on a family basis, and the amount chargeable in each case fixed in inverse ratio to the number of persons to be maintained; if the net sum chargeable were taxed from, say, 1d. in the £ at the lowest level up to 16s. in the £ on incomes exceeding £100,000 a year; and if the present differentiation in rates between "earned" and "unearned" incomes were extended, *there seems no reason why the so-called rate of Income Tax, which only the holders of incomes above the highest Abatement level would pay, should ever fall below a nominal 10s. in the £.* Subject to the same conditions of graduation and differentiation, even this rate may not be sufficient to meet the whole charge of the National Debt.

The Capital Levy.

Here we come to the suggestion that has caused a quite unnecessary amount of alarm, namely, that of a tax assessed in proportion to each man's fortune or riches—called indiscriminately a Capital Tax or Capital Levy, and the Conscription of Wealth. I need hardly say that this is not specially an invention of the Labour Party. It is the expedient to which those who are facing the alarming financial situation ahead of us—bankers, economists, serious politicians—have for some time been considering. It is being proposed by financiers and economists in all countries. It has not been absent, as Mr. Bonar Law has revealed, from the considerations of the British Exchequer. When the sum to be annually levied is very large—suppose, for instance, that it came to equal fifteen shillings in the pound of the

* See *A Revolution in the Income Tax* (Fabian Research Department, price 1s.; reprinted from *How to Pay for the War*).

whole assessable income—the question inevitably arises whether it would not be easier and equitable, and more in consonance with the principle of equality of sacrifice, to apportion the assessment among the contributories partly upon the capital value of their several fortunes instead of wholly upon their incomes. There is every gradation—to take only the classes paying the full rate of Income Tax—between the business man or doctor earning £2,500 a year, and as yet without any appreciable accumulated wealth, and the owner of £50,000 in Government securities who is doing no productive work and earning nothing. At present it is literally true that both are made to contribute equally to Income Tax and Supertax.

There is an extraordinary delusion among the middle-class—a delusion fostered by the wealthy as one of their means of defence against being made to contribute equitably to the taxes—that the project of a Tax on Capital is put forward in the interests of the wage-earners, in order to spare the mass of the people from paying any taxes at all. But, as a matter of fact, it is not as a substitute for the taxation of the wage-earners that the Capital Tax is proposed. It is proposed as a substitute for a crushingly heavy Income Tax on the whole body of professional and business men. The alternative for the doctor or teacher or minister of religion to consider; for the farmer or shopkeeper or manufacturer or merchant to ponder over; for the man or woman living on an annuity or on the proceeds of scanty savings to reflect upon, is whether it is better to go on for all time paying an Income Tax at the nominal rate of fifteen shillings in the pound without a Capital Tax; or to have a properly graduated Capital Tax once for all, in order to get the Income Tax down to something like the pre-war rate.

One thing is certain. The high Income Tax and Supertax is what the millionaires, and generally all the wealthy families, very much prefer to a Capital Tax! And the reason is plain. If the Government must raise a very large sum by Direct Taxation it is very much more profitable to the owners of great estates and huge investments, if this large sum is levied entirely in proportion to people's *incomes*, than if any part of it is levied in proportion to people's *fortunes*. On the other hand, those people who have incomes without fortunes (or whose capital wealth is small in comparison with their incomes), stand to gain by getting part of the sum levied, not in proportion to incomes, but in proportion to capital wealth. Thus, practically all those who are earning incomes—the professional classes, the authors, the men actually engaged in business, and the great salaried class—would (unless they were already wealthy) benefit by the substitution of a Capital Tax for a great part of the crushing Income Tax that will otherwise be indispensable.

It will be realised that the imposition, once for all, of a Capital Tax, as an alternative to greatly increasing the Income Tax, is in strict accordance with the principle of equality of sacrifice. The man with £100,000 invested capital can more easily spare £50,000 once for all than the man earning £5,000 a year—dependent on his continuance in life and health, and contingent on all the chances of

business—can spare an annual Income Tax of £2,500, or even £2,000 a year. Of course, the Capital Tax would be steeply graduated; probably charging nothing on little fortunes up to £1,000, or even up to £2,600, where the owner is now exempt from Income Tax; small percentage only (perhaps 1 per cent) up to £5,000; possibly 5 per cent up to £10,000; 10 per cent up to £20,000; and only rising to 50 per cent or upwards on the estates of the millionaires. Of course, too, all fortunes would be assessed at their present net value, after deducting all debts, mortgages, jointures and other charges.

Is it not the most sensible course to take? When a man is in debt, and subject to onerous annual charges for interest, it is nearly always economical for him to clear off his debts, even at the sacrifice of part of his property. It was not I but Mr. Bonar Law who suggested that it would be to the interest of the property owners of this country, as well as that of the community as a whole, that at any rate a large proportion of the National Debt should be repaid, once for all, soon after the war, rather than drag on for a whole generation, necessitating the payment, at the cost, year after year, of a colossal Income Tax, of much more than the actual expense of the war—that is to say, first the interest and then the repayment disguised in a Sinking Fund. In so far as the property owners have to pay this Income Tax, it would be more profitable for them to discharge the capital liability at once, and thus greatly reduce their own burden. This is the financial case for a drastic reduction of the National Debt, by means of a Capital Levy, perhaps down to a total no greater than is represented by the tangible or productive assets of the Government.

It has often been rashly asserted, by those who have given the matter no study, that the practical difficulties of a Capital Levy are insuperable. Such critics might remember that a universal Capital Levy was actually made by the German Government in 1914 and 1917. Or they might reflect that exactly the sort of Capital Levy that is now proposed is actually made in our own country every year in the shape of the Probate and Estate Duties, which yield over thirty millions annually. It is true that not all the property in the kingdom is simultaneously assessed in this way; in fact, only one-thirtieth of the wealth passes by death each year. A Capital Levy might be made without a new tax, if every person were, by statute, on some prescribed day, deemed for this purpose to be dead, and at the same time to be his own heir! Such a Capital Levy might probably involve thirty times as much trouble, and thirty times as numerous a staff, as the existing Death Duties necessitate. This cannot be supposed to be prohibitive. In reality, by prescribing that all securities should be taken at the Stock Exchange quotations, and that different classes of other property should be automatically taken to be worth so many years purchase of the income—according to the ascertained ratio of the last ten years' practice for Probate—with personal effects, pictures, jewellery, and so on, arbitrarily assessed in the light of the fire insurance policy, mitigated by such evidence as to cost as the owner chose to produce, the valuation could be reduced to little more than a matter of rendering an

account. Once more, let it be said that the man who declares a Capital Levy to be impracticable, may any day find himself an executor, and he will then see the incredible actually existing, and the impossible going through the hollow mockery of taking place !*

Sometimes it is urged that a Capital Levy would involve ruinous loss through the simultaneous necessity of realising land, houses, and securities in a depreciated market. There would be, it ought to be needless to say, absolutely no such realisation. During the War, it is true, the Government has needed cash, not wealth. But after the War, for this purpose of getting rid of the burden of the National Debt, the Government wants wealth, not particularly cash. It would therefore naturally be quite willing to take payment by instalments, even spreading the charge over ten years. It could offer, in the alternative, to take over all Stock Exchange securities (including the shares of companies quoted only on the Scottish and provincial markets) at the current valuation. They would be just as useful to the Government as to their present owners, and would be just as productive. It would equally accept, up to the amount of the levy, mortgages on lands and houses, ships and private businesses, if the contributory preferred not to pay in cash. It would not need to ask the taxpayers for a penny more in cash than they themselves preferred to pay. All these forms of wealth would be equally welcome to the Commissioners for the Reduction of the National Debt. The interest received on these securities and mortgages would year by year discharge the interest payable on an equivalent amount of War Loan. Gradually these securities would be unloaded, first, under the privilege of pre-emption during a certain time that might be accorded to the mortgagors ; secondly, by exchanges with holders of War Loan, who could be tempted by a slight bonus voluntarily to surrender their Government stock in return for these other securities ; and, thirdly, by gradual sale on a market for securities that would be continually expanding, to the extent of the simultaneous repayment of Government Debt with the proceeds of such sales.†

* It would be reasonable to make the Capital Tax a substitute for the *first* payment of Death Duties that falls due after its levy. It would thus take the form, to this extent, of an anticipation of the Death Duties to which all property is already liable on the death of the present owners. But the Death Duties (which yield about thirty millions a year) average only ten per cent. of the fortunes on which they are levied. The Capital Tax might be, on an average, in excess of that percentage.

† It has been suggested that an alternative to a Capital Levy might be found in increasing the Death Duties four or fivefold, in the expectation that, with the greatly increased aggregate of private fortunes, of presently obtaining an income of £200,000,000 a year from this source. It is suggested that any such expectation is delusive, as Death Duties of such magnitude would be evaded by the rapidly increasing tendency to make transfers during life from parents to children. Such transfers would be of no avail against a Capital Levy, which would naturally be based on fortunes as they stood at a date prior to its introduction.

‡ For a careful examination of the whole financial position, and of the proposed Capital Tax, see *A Levy on Capital*, by F. W. Pethick Lawrence (Allen & Unwin, 1s. 6d.); see also *A Levy on Capital for the Discharge of Debt*, by F. Y. Edgeworth, Professor of Political Economy in the University of Oxford (Clarendon Press, 1s. net), and the articles in the *Economic Journal* for June and September, 1918.

And now I have given you all I know, in broad outlines, of the financial proposals of the Labour Party. There is nothing in them, so far as I can judge, that is in the nature of economic heresy, or the special invention of "wild Bolsheviks" in the Labour Party. They are, in fact, taken from the most orthodox political economists; they are distinguished from the financial proposals of the other political parties only by their candour and frankness, and by their resolute facing of the facts of the situation. They are based on the four fundamental considerations that I have named, which no instructed person can ignore or deny. There must be no lowering of the Standard of Life, and therefore no encroachment upon (and no undermining of) the necessary full and adequate subsistence of the people. There must be no impairment of production, rather a determined reorganisation of our industrial system, so as to secure an actual increase of production of useful commodities and services, and therefore no weakening of the springs of action necessary to set the powers of production to work. The huge burden that we have to bear must be adjusted according to the principle of equality of sacrifice. And nothing must be done that outrages the sense of justice of the community.

"No cake for anyone until all have bread."

What we must do is to develop to the utmost the revenue from the national estate, irrespective of the cupidity of the private profit maker.† We must levy taxation on those below the Income Tax exemption level only through the very large amount that the members of this class divert to luxuries of no social value. We must courageously intercept, for the benefit of the Exchequer, not only the growth of urban land values, but also every form of unearned increment. And we must rely, for our main source of revenue, on the Direct Taxation of Income and Property.

Fundamentally, the position is this. The nation must forego its fat. If we are to retain our health and strength, and keep up both our race and our production, we must imperatively—to use a liquidator's phrase—"marshal our assets," on the principle of "First things first," allowing the allocation of our possessions, in order to meet the most pressing requirements of the community, to whatever extent is necessary, *in the order of their urgency*. In the words of Ruskin, there is no wealth but life; and the nation must in all departments put its life above riches. In the hard and strenuous times before us there must be "*no cake for anyone until all have bread.*"

† *How to Pay for the War* (Fabian Research Department, 6s. net).

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